

## Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Lincoln Township	County Osceola
Fiscal Year End March 31, 2008	Opinion Date June 17, 2008	Date Audit Report Submitted to State August 4, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

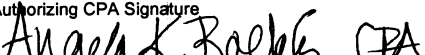
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Letter; SAS 114 Letter	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Angela K. Roelofs, C.P.A.	License Number 1101029140

**LINCOLN TOWNSHIP, OSCEOLA COUNTY**

**REED CITY, MICHIGAN**

**MARCH 31, 2008**

***Baird, Cotter and Bishop, P.C.***

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

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LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

MARCH 31, 2008

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

June 17, 2008

### INDEPENDENT AUDITORS' REPORT

To the Township Board  
Lincoln Township  
Osceola County  
Reed City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln Township, Osceola County, Reed City, Michigan, as of and for the year ended March 31, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln Township, Osceola County, Reed City, Michigan, as of March 31, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lincoln Township, Osceola County, Reed City, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

Lincoln Township, a general law township located in Osceola County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Lincoln Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2008.

**Financial Highlights**

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$804,996. Of this amount, \$339,259 may be used to meet the Township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$478,401. \$334,519 is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2008.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

***Proprietary Funds*** – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

**Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other Information**

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township were \$804,996 at March 31, 2008, meaning the Township’s assets were greater than its liabilities by this amount.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Lincoln Township**  
**Net Assets as of March 31, 2008**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current Assets	\$ 482,769
Non Current Assets	
Capital Assets	625,214
Less: Accumulated Depreciation	<u>298,619</u>
Total Non Current Assets	<u>326,595</u>
<b>Total Assets</b>	<b><u><u>\$ 809,364</u></u></b>
<b>Liabilities</b>	
Current Liabilities	<u>\$ 4,368</u>
<b>Net Assets</b>	
Invested in Capital Assets	326,595
Restricted for Specific Purposes	139,142
Unrestricted	<u>339,259</u>
<b>Total Net Assets</b>	<u>804,996</u>
<b>Total Liabilities and Net Assets</b>	<b><u><u>\$ 809,364</u></u></b>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Township has \$339,259 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$55,518 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.



LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Lincoln Township**  
**Change in Net Assets**  
**for the Fiscal Year Ended March 31, 2008**

	<b><u>Governmental Activities</u></b>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 18,298
Operating Grants and Contributions	6,082
<b>General Revenues</b>	
Taxes	117,355
State Grants	114,680
Interest Earnings	7,902
Other	<u>16,161</u>
 <b>Total Revenues</b>	 <u>280,478</u>
 <b><u>Expenses</u></b>	
Legislative	8,935
General Government	78,477
Public Safety	62,235
Public Works	49,973
Other Functions	<u>25,340</u>
 <b>Total Expenses</b>	 <u>224,960</u>
 Change in Net Assets	 55,518
 <b><u>NET ASSETS</u> - Beginning of Year</b>	 <u>749,478</u>
 <b><u>NET ASSETS</u> - End of Year</b>	 <u><u>\$ 804,996</u></u>

**Governmental Activities**

During the fiscal year ended March 31, 2008, the Township's net assets increased by \$55,518 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

The most significant portion of the revenue for all governmental activities of Lincoln Township comes from taxes. The Township levied 0.9968 mills for operating purposes and 0.9968 mills for road maintenance.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Township's governmental activities expenses are dominated by general governmental expenses that total \$78,477. Public Safety represented the next largest expense at \$62,235. Depreciation expense added \$25,589 to general governmental expenses.

**Financial Analysis of the Government's Funds**

***Governmental Funds*** The focus of Lincoln Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Lincoln Township's governmental funds reported combined ending fund balances of \$478,401. \$334,519 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation.

**General Fund** – The General Fund increased its fund balance by \$27,159 which brings the fund balance to \$341,434. \$334,519 of the General Fund's fund balance is unreserved. All of the General Fund's functions ended the year with expenditures below budgeted amounts. Taxes amounted to \$67,857. State grants were collected in the amount of \$114,680.

**Road Fund** – The Road Fund increased its fund balance by \$17,945, which brings the fund balance to \$136,967. Taxes amounted to \$49,498. The only expenditures were for placement of gravel in the amount of \$35,645.

**Capital Assets and Debt Administration**

**Capital Assets.** The Township's investment in capital assets for governmental activities as of March 31, 2008, amounted to \$326,595 net of accumulated depreciation.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2008

**Lincoln Township**  
**Capital Assets as of March 31, 2008**

	<b>Governmental Activities</b>
Land	\$ 3,500
Buildings	82,945
Land Improvements	39,922
Infrastructure	145,273
Vehicles	299,086
Furniture and Equipment	54,488
	<hr/> 625,214
Less: Accumulated Depreciation	<hr/> 298,619
	<hr/>
<b>Net Capital Assets</b>	<b><u><u>\$ 326,595</u></u></b>

Major capital asset events during the current fiscal year included the following:

- Purchased a furnace at a cost of \$1,695.
- Purchased fire equipment at a cost of \$34,308.

**Long-Term Debt.** Lincoln Township has no obligation for any long-term debt as of March 31, 2008.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues. The Township's millage rate was reduced again by the Headlee Amendment rollback.

The road millage expired December 31, 2007, and will be on the August 2008 ballot as an extra voted millage for 1 mill for the years 2008 through 2013.

These factors were considered in preparing the Township's budgets for the 2008-09 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Lincoln Township at 20920 9 Mile Road, Reed City, MI 49677.

LINCOLN TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 428,220
Receivable	
Taxes	10,292
Accounts	12,788
External Parties (Fiduciary Fund)	249
Due from Other Governments	26,480
Prepaid Expenses	4,740
	<hr/>
Total Current Assets	482,769
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	3,500
Buildings	82,945
Land Improvements	39,922
Infrastructure	145,273
Vehicles	299,086
Furniture and Equipment	54,488
	<hr/>
	625,214
Less Accumulated Depreciation	298,619
Net Capital Assets	<hr/>
	326,595
	<hr/>
TOTAL ASSETS	809,364
	<hr/>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payables	
Accounts	3,327
Payroll Taxes and Withholdings	1,041
	<hr/>
Total Current Liabilities	4,368
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets	326,595
Restricted for:	
Road Maintenance	136,967
Telecommunications Right of Way Maintenance	2,175
Unrestricted	339,259
	<hr/>
TOTAL NET ASSETS	\$ 804,996
	<hr/>

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2008

					NET (EXPENSES)
					REVENUES
					AND CHANGE
					IN NET ASSETS
					TOTAL
					GOVERNMENTAL
					ACTIVITIES
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 8,935	\$ 0	\$ 0	\$ 0	\$ (8,935)
General Government	78,477	8,848	0	0	(69,629)
Public Safety	62,235	9,450	2,500	0	(50,285)
Public Works	49,973	0	3,582	0	(46,391)
Other Functions	25,340	0	0	0	(25,340)
Total Governmental Activities	\$ 224,960	\$ 18,298	\$ 6,082	\$ 0	(200,580)
<u>GENERAL REVENUES</u>					
Taxes					117,355
State Grants					114,680
Interest Earnings					7,902
Other					16,161
Total General Revenues					256,098
Change in Net Assets					55,518
<u>NET ASSETS</u> - Beginning of Year					749,478
<u>NET ASSETS</u> - End of Year					\$ 804,996

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2008

	GENERAL FUND	ROAD FUND	TOTALS
<u>ASSETS</u>			
Cash	\$ 300,185	\$ 128,035	\$ 428,220
Taxes Receivable	5,784	4,508	10,292
Accounts Receivable	12,788	0	12,788
Due from Other Governments	26,480	0	26,480
Due from Other Funds	219	4,424	4,643
Prepaid Expenditures	4,740	0	4,740
TOTAL ASSETS	\$ 350,196	\$ 136,967	\$ 487,163
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 3,327	\$ 0	\$ 3,327
Payroll Taxes and Withholdings	1,041	0	1,041
Due to Other Funds	4,394	0	4,394
Total Liabilities	8,762	0	8,762
<u>FUND BALANCE</u>			
Reserved for:			
Road Maintenance	0	136,967	136,967
Prepaid Expenditures	4,740	0	4,740
Telecommunications Right of Way Maintenance	2,175	0	2,175
Unreserved			
Undesignated	334,519	0	334,519
Total Fund Balance	341,434	136,967	478,401
TOTAL LIABILITIES AND FUND BALANCE	\$ 350,196	\$ 136,967	\$ 487,163

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2008

Total Fund Balances for Governmental Funds	\$ 478,401
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Amounts Reported for Governmental Activities in the  
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$ 3,500	
Buildings	82,945	
Land Improvements	39,922	
Infrastructure	145,273	
Vehicles	299,086	
Furniture and Equipment	54,488	
Accumulated Depreciation	<u>(298,619)</u>	<u>326,595</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 804,996</u>
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The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY

REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2008

	GENERAL FUND	ROAD FUND	TOTALS
<u>REVENUES</u>			
Taxes	\$ 67,857	\$ 49,498	\$ 117,355
State Grants	114,680	3,582	118,262
Charges for Services	13,613	0	13,613
Interest and Rents	12,077	510	12,587
Other Revenues	18,661	0	18,661
Total Revenues	226,888	53,590	280,478
<u>EXPENDITURES</u>			
Legislative	8,935	0	8,935
General Government	76,614	0	76,614
Public Safety	84,197	0	84,197
Public Works	4,643	35,645	40,288
Other Functions	25,340	0	25,340
Total Expenditures	199,729	35,645	235,374
Net Change in Fund Balance	27,159	17,945	45,104
<u>FUND BALANCE</u> - Beginning of Year	314,275	119,022	433,297
<u>FUND BALANCE</u> - End of Year	\$ 341,434	\$ 136,967	\$ 478,401

The accompanying notes are an integral part of the financial statements.



LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2008

Net Change in Fund Balance - Total Governmental Funds	\$ 45,104
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(25,589)
Capital Outlay	<u>36,003</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 55,518</u></u>

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
MARCH 31, 2008

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	\$ 1,980
	<hr/>
<u>LIABILITIES</u>	
Due to Other Funds	\$ 249
Due to Other Governments	1,731
	<hr/>
TOTAL LIABILITIES	\$ 1,980
	<hr/>

The accompanying notes are an integral part of the financial statements.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

Lincoln Township is a general law township located in Osceola County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Lincoln Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Road Fund* accounts for revenue sources that are legally restricted to expenditure for road maintenance.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

Additionally, Lincoln Township reports the following fund types:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

#### **D. Assets, Liabilities and Equity**

##### ***1. Deposits and Investments***

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of twelve months or less from date of acquisition.

The investment policy adopted by the Township states that the treasurer may invest Township funds in certificates of deposit, but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

##### ***2. Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and county taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2007 taxable valuation of Lincoln Township totaled \$49,764,958, on which ad valorem taxes levied consisted of 0.9968 mills for Lincoln Township operating purposes and 0.9968 mills for Lincoln Township road maintenance. The levies raised approximately \$49,523 for operating purposes and \$49,523 for road maintenance.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as required.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land Improvements	20
Building Improvements	20
Infrastructure	15
Vehicles	10-20
Furniture and Equipment	5-10

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**5. *Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**6. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Budgetary Information***

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 14, 2007 or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Funds with Expenditures in Excess of Appropriations were as follows:**

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
Road Fund		
Highways, Streets, Bridges	\$ 0	\$ 35,645

These overages were funded by greater than anticipated revenues and available fund balance.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Township's deposits are on deposit with Chemical Bank and Huntington Bank.

*Investment rate risk.* The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

*Foreign currency risk.* The Township is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

*Concentration of credit risk.* The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2008, \$154,764 of the government's bank balance of \$431,083 was exposed to custodial credit risk because it was uninsured and uncollateralized.



LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

**B. Receivables**

Receivables as of year end for the government's individual major funds are as follows:

Receivables	General	Road	Total
Taxes	\$ 5,784	\$ 4,508	\$ 10,292
Accounts	12,788	0	12,788
Due from Other Governments	26,480	0	26,480
	<u>\$ 45,052</u>	<u>\$ 4,508</u>	<u>\$ 49,560</u>

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 3,500	\$ 0	\$ 0	\$ 3,500
Capital assets, being depreciated				
Buildings	81,250	1,695	0	82,945
Land Improvements	39,922	0	0	39,922
Infrastructure	145,273	0	0	145,273
Vehicles	299,086	0	0	299,086
Furniture and Equipment	20,180	34,308	0	54,488
Total capital assets, being depreciated	585,711	36,003	0	621,714
Less accumulated depreciation for:				
Buildings	55,858	1,849	0	57,707
Land Improvements	2,366	946	0	3,312
Infrastructure	9,849	9,685	0	19,534
Vehicles	196,812	7,946	0	204,758
Furniture and Equipment	8,145	5,163	0	13,308
Total accumulated depreciation	273,030	25,589	0	298,619
Total capital assets, being depreciated, net	312,681	10,414	0	323,095
Governmental activities capital assets, net	\$ 316,181	\$ 10,414	\$ 0	\$ 326,595

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 1,863
Public Safety	14,041
Public Works	9,685
	<u>\$ 25,589</u>

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2008.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at March 31, 2008, were:

	INTERFUND RECEIVABLES DUE FROM'S	INTERFUND PAYABLES DUE TO'S
General Fund	\$ 219	\$ 4,394
Special Revenue Funds		
Road Fund	4,424	0
Fiduciary Funds		
Current Tax Collection Fund	0	249
	<u>\$ 4,643</u>	<u>\$ 4,643</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

**E. Long-Term Debt**

At March 31, 2008, the Township was not obligated for any long-term debt.

**F. Fund Balance Reserves**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. These reserves are detailed in the following schedule:

<u>FUND BALANCE/NET ASSETS</u>	
Reserved	
General Fund	
Prepaid Expenditures	\$ 4,740
Telecommunications Right of Way	2,175
Special Revenue Funds	
Road Fund	
Road Maintenance	<u>136,967</u>
TOTAL FUND BALANCE/NET ASSETS	<u>\$ 143,882</u>

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 2008

**IV. OTHER INFORMATION**

**A. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

**B. Sale of Future Revenues**

For several years the Township has sold its rights to delinquent real property tax revenues and related late payment penalties to Osceola County. For the 2007 tax roll the Township received a lump sum payment of \$10,292, which included \$4,507 for general operating tax revenues, \$1,278 for administration fee revenues, and \$4,507 for road maintenance tax revenues. These amounts represent 100% of the present value of the delinquent real property tax revenues. In exchange for these payments, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the Township will have to repay the county.

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED MARCH 31, 2008

	GENERAL FUND			ROAD FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<b><u>REVENUES</u></b>						
Taxes	\$ 62,000	\$ 62,000	\$ 67,857	\$ 46,000	\$ 46,000	\$ 49,498
State Grants	110,000	110,000	114,680	0	0	3,582
Charges for Services	13,050	13,050	13,613	0	0	0
Interest and Rents	8,000	8,000	12,077	0	0	510
Other Revenues	0	0	18,661	0	0	0
Total Revenues	193,050	193,050	226,888	46,000	46,000	53,590
<b><u>EXPENDITURES</u></b>						
Legislative						
Township Board	8,700	9,375	8,935	0	0	0
General Government						
Supervisor	8,300	8,510	8,207	0	0	0
Clerk	11,600	11,605	9,620	0	0	0
Board of Review	1,600	1,720	1,539	0	0	0
Treasurer	15,150	17,345	16,870	0	0	0
Assessor	15,400	16,000	15,796	0	0	0
Elections	3,455	2,955	1,798	0	0	0
Building and Grounds	21,800	18,580	15,657	0	0	0
Cemetery	5,250	7,825	7,127	0	0	0
Public Safety						
Fire Department	65,095	94,125	84,197	0	0	0
Public Works						
Highways, Streets, Bridges	0	0	0	0	0	35,645
Refuse Collection	5,600	5,600	4,041	0	0	0
Street Lighting	500	610	602	0	0	0
Recreation and Cultural						
Library	2,600	0	0	0	0	0
Other Functions						
Employee Benefits	8,000	7,600	5,783	0	0	0
Insurance and Bonds	20,000	20,000	19,557	0	0	0
Total Expenditures	193,050	221,850	199,729	0	0	35,645
Net Change in Fund Balance	0	(28,800)	27,159	46,000	46,000	17,945
<b><u>FUND BALANCE</u></b> - Beginning of Year	268,615	268,615	314,275	0	0	119,022
<b><u>FUND BALANCE</u></b> - End of Year	\$ 268,615	\$ 239,815	\$ 341,434	\$ 46,000	\$ 46,000	\$ 136,967

LINCOLN TOWNSHIP, OSCEOLA COUNTY  
REED CITY, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED MARCH 31, 2008

	BALANCE			BALANCE	
	4/1/2007	ADDITIONS	DEDUCTIONS	3/31/2008	
<u>CURRENT TAX COLLECTION FUND</u>					
	<u>ASSETS</u>				
Cash	\$ 1,619	\$ 1,666,592	\$ 1,666,231	\$ 1,980	
	<u>LIABILITIES</u>				
Due to Other Funds	\$ 191	\$ 110,606	\$ 110,548	\$ 249	
Due to Individuals	0	6,358	6,358	0	
Due to Other Governments	1,428	1,549,628	1,549,325	1,731	
Total Liabilities	\$ 1,619	\$ 1,666,592	\$ 1,666,231	\$ 1,980	

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

[www.bcbcpa.com](http://www.bcbcpa.com)

June 17, 2008

To the Township Board  
Lincoln Township  
Osceola County  
Reed City, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln Township, Osceola County, Reed City, Michigan as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Lincoln Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

## 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

## 2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that number 1) Lack of Segregation of Duties described above is a material weakness.



This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

June 17, 2008

To the Township Board  
Lincoln Township  
Osceola County  
Reed City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lincoln Township for the year ended March 31, 2008, and have issued our report thereon dated June 17, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 12, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Lincoln Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Lincoln Township are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted. We did propose several adjusting journal entries that were accepted and recorded by management.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated June 17, 2008.

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of Lincoln Township for the year ended March 31, 2008, we noted the following list of items which we feel deserve comment:

#### Budgeting

The Township's expenditures exceeded appropriations in the Road Fund. P.A. 621 of 1978 requires the budget to be amended before expenditures exceed appropriations. The Township monitored and amended the budget timely in the General Fund. The board minutes should also clearly state the adoption and any subsequent amendments to the budget during the year.

#### Balance in Tax Collection Fund

At year end, a balance existed in the Tax Collection Fund. All monies collected by this fund should be timely paid out in accordance with state law.

#### Credit Card Policy

During the audit it was noted that the Township utilizes a credit card for Staples. We encourage the board to adopt a formal credit card policy governing use and control of a credit card. If assistance is needed in drafting the credit card policy, we can provide you with a sample policy.

#### Condition of Accounting Records

We found the accounting records to be in good order and in compliance with the State's uniform accounting system. We would like to commend the clerk and treasurer for the fine job they did. We encourage you to continuously evaluate your internal controls and closely monitor your system on a regular basis.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*